NABE Policy Survey

June 14, 1988

Economists Expect Smaller Trade Deficit, Trade-Policy Obstacles Remain

This report presents the results of a survey on economic policy issues made by a panel of more than 200 business economists. The survey was made during late May. The Economic Policy Survey is one of three surveys taken during each calendar quarter by NABE; the other surveys are the Industrial Outlook (taken during the 3rd month of the quarter) and the Macroeconomic Forecast (taken immediately after the Commerce Department's preliminary NIPA estimates in the 1st month of the quarter).

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Survey Highlights

* NABE's panel of business economists expect the U.S. foreign trade deficit to fall to about $150 billion this year and $125 billion in 1989, compared with a peak of $171 billion during 1987. **That's the good news; the bad news is that current economic policies are preventing a more rapid decline in that deficit.**

* The dollar is seen as the major factor behind the increase in exports during the past two years. The principal cause of the remaining deficit is the difference in fiscal and monetary policies between the United States and its major trading partners.

* About one-third of the economists perceive the quality of American products to be a significant problem in the U.S. trade performance, with more than 80 percent believing quality is at least a small difficulty. Concern is greatest about the quality of American-made consumer durables.

* More than four-fifths of the economists surveyed point to substantial market barriers in Japan. Other countries of special concern are South Korea and Taiwan. Bilateral negotiations with these nations are viewed as the most promising way to reduce trade restrictions. About 70 percent of the economists also believe that neither Japan nor Germany has made the necessary adjustments to reduce world trade and capital flow imbalances.

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The results of the NABE's Economic Policy Survey were released on Friday, June 10 in San Francisco and were coordinated with NABE's special two-day seminar on "Internationalization of the U.S. Economy: Business Prospects in the Pacific Rim." A number of special questions were designed for this survey (which helped set new records for the length--to the NABE members who endured the questioning, **thanks!**).

Special Questions on International Economic Policy

The NABE panel estimates the U.S. Merchandise Trade Deficit will improve to about $150 billion in 1988 and $125 billion next year, down from last year's actual $171 billion deficit. Interestingly, nearly two-thirds of NABE's economists believe that macroeconomic policies in the U.S. and its trading partners are the principal cause of the U.S. trade deficits--and these macro policies are not expected to go away soon. Only 8 percent pin the major blame on trade barriers in various countries.

Table 1

Merchandise Trade Estimates

1987 Actual	**$ -171 Billion**
1988 Est.	**-147**
1989	**-125**

Note: Forecasts are arithmetic means

With the provisions of the Omnibus Trade Bill in mind, the panel was asked to rate (from 0 as very bad policy to 10 as very good policy) each of several points in the bill. The NABE panel had even more difficulty with the Trade Bill than did President Reagan, whose veto was apparently driven mainly by the objection to the plant-closing provision. The NABE panel took a dim view of the plant-closing provision, too (giving it a score of only 4.2, just below "fair"), but the panel thought even less of the proposed changes to Sections 201 and 301 that would tighten rules and cut down on Presidential discretion to waive determinations or assess penalties.

By contrast, the NABE panel gave its clear endorsement to measures that would open up or liberalize international trade, even if it meant that the United States would move first and without guarantee of reciprocity. To illustrate, the suggestion that drew the strongest support was to reduce and eventually eliminate (domestic and trade) policies that distort agricultural production, prices and market-access. Another was the identify and eliminate restrictions on foreign direct investment, including exchange controls, domestic-content rules, technology-transfer requirements, etc.

Table 2

Appraisal of the Omnibus Trade Bill and Trade Initiatives
(Mean Scores, from 0 to 10 [=Very Good])

Tighten 201 Definition of injury from imports	4.0
Remove Presidential discretion on 201 cases	2.2
Change rules so dumping is easier to determine	4.0
Ease rules so more countervailing duties can be applied	4.2
Remove Presidential discretion on 301 cases	2.2
Reduce (& in time eliminate) agric. barriers	7.9
Require retaliation where large bilateral trade surpluses are run (Gephardt provision)	1.5
Require registration of fgn. investments in U.S.	3.9
Eliminate restrictions on fgn. direct investment	6.9
Put GATT negotiations on a "fast track" approval process in U.S. Congress (no amending)	7.2
Liberalize Trade in services	6.3
Establish & Protect Intellectual Prop. rights	5.8
Require 60-day notice of plant closings	4.2

Taking a longer-term perspective, slightly over one-half of the economists believe that Japan will be the dominant Asian economic power by the middle of the next century. Interestingly, 46 percent believe the People's Republic of China will hold that position. The majority of economists also believe that international trade in the 21st century will be characterized by a number of regional common markets (such as the European Economic Community).

Other findings of the special international policy questions are summarized on the first two pages of the charts.

Inflation Measures

We asked the panel for views on the relative usefulness of various indicators as measures of inflation and inflationary expectations.

Table 3

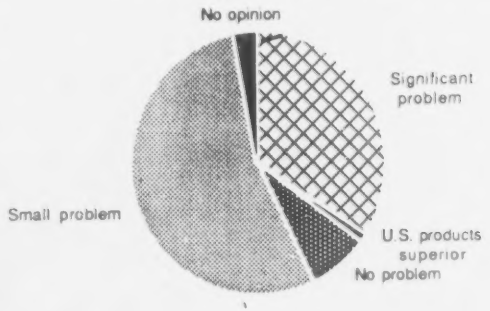
Reliable Measures of Inflation?
(Percent Responding of 208 total)

	Very Useful	Useful	Neutral	Misleading	No Opinion
Commodity Prices	16	52	11	20	1
Int'l Value of $	10	56	18	14	2
Shape of Yield Curve	15	48	17	13	7

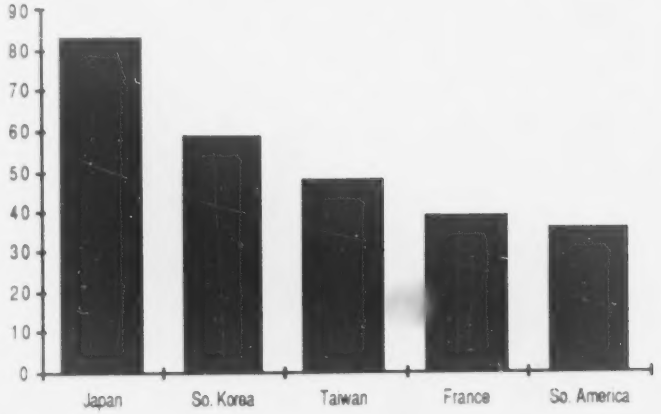
A clear majority (73 percent) of the economists believe the minimum wage bill under consideration in Congress does not constitute sound economic policy, **although slightly more than one-half expect such a bill to become law this year.** Many economists would expect significant increases in the minimum wage to cause a reduction in employment among unskilled workers, as well as contribute to higher wage and price inflation.

SPECIAL INTERNATIONAL TRADE ISSUES 1

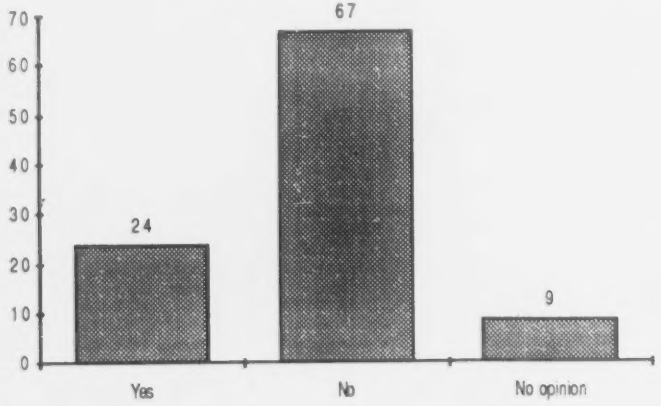
IS U.S. PRODUCT QUALITY A PROBLEM?
(Percent of economists reporting)



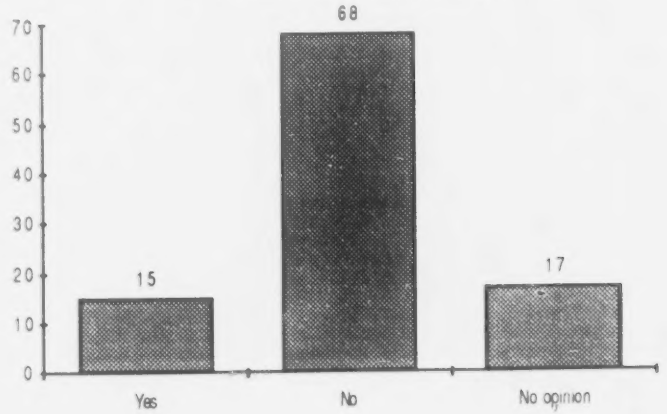
COUNTRIES WITH SIGNIFICANT TRADE BARRIERS
(Percent of economists reporting)



HAS JAPAN MADE SUFFICIENT POLICY ADJUSTMENTS?
(Percent of economists responding)

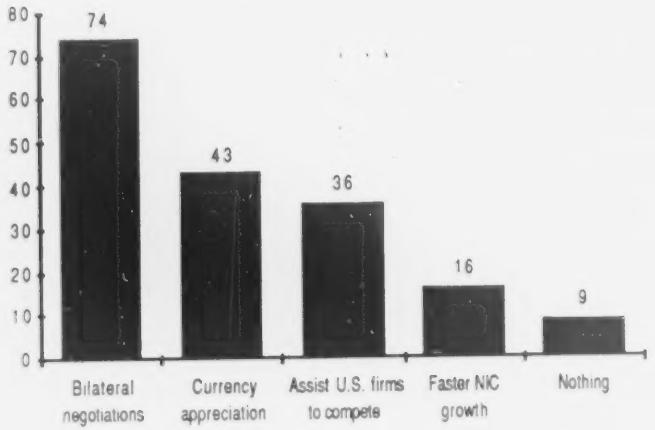


HAS GERMANY MADE SUFFICIENT POLICY ADJUSTMENTS?
(Percent of economists responding)

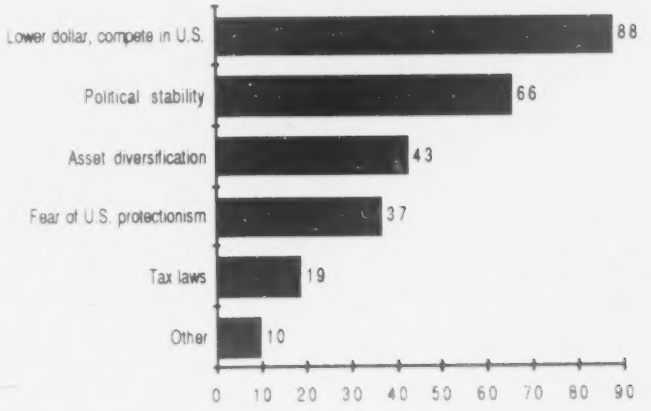


SPECIAL INTERNATIONAL TRADE ISSUES 2

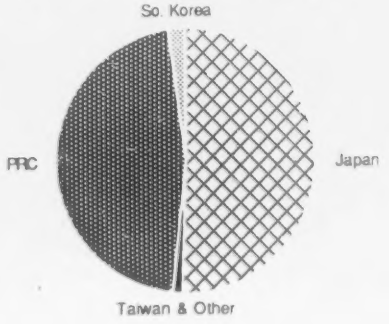
POLICIES FOR U.S. TRADE DEFICITS WITH ASIAN NICs
(Percent of economists endorsing)



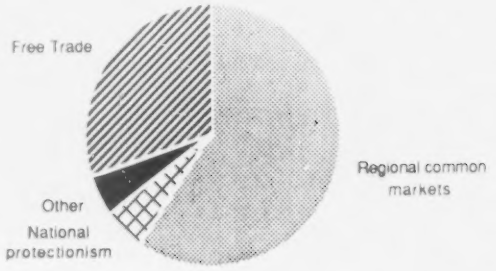
REASONS FOR INCREASED DIRECT FOREIGN INVESTMENT IN U.S.
(Percent of economists reporting)



DOMINANT ASIAN ECONOMIC POWER BY MIDDLE OF 21st CENTURY
(Percent of economists expecting)



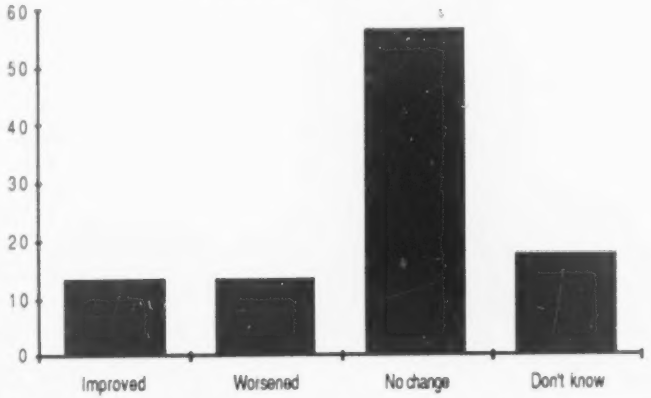
DOMINANT TRADING SYSTEM IN 21st CENTURY
(Percent of economists expecting)



LDC DEBT

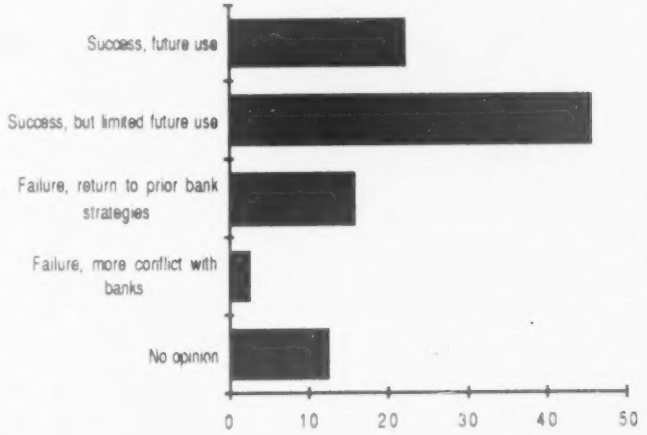
HOW HAS THE LDC DEBT PROBLEM CHANGED IN LAST 3 MONTHS?

(Percent of economists reporting)



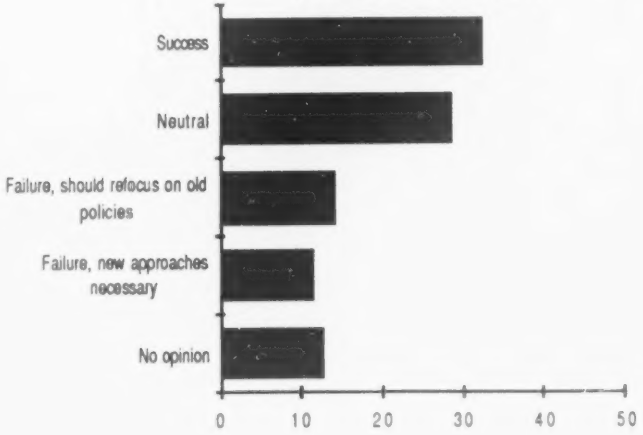
HOW SHOULD MEXICO VIEW DEBT SWAP?

(Percent of economists reporting)



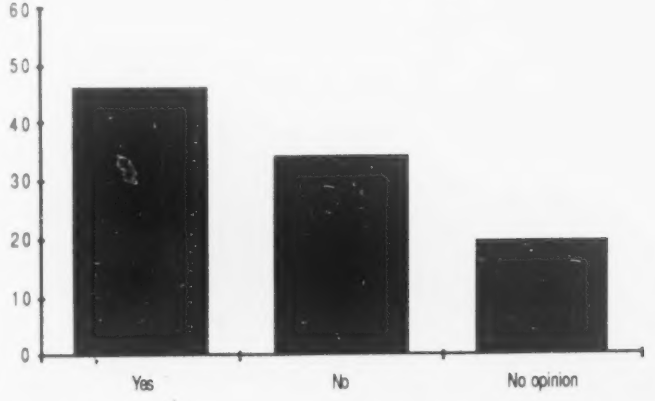
HOW SHOULD BANKS VIEW MEXICO DEBT SWAP?

(Percent of economists reporting)



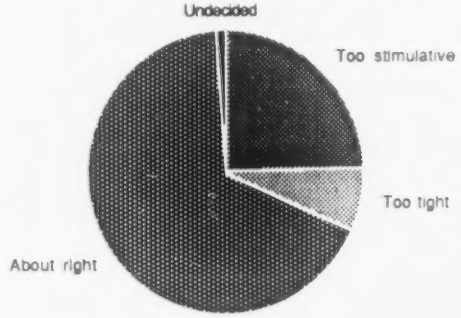
DO YOU EXPECT OTHER LDC COUNTRIES TO ATTEMPT SIMILAR PLANS?

(Percent of economists reporting)

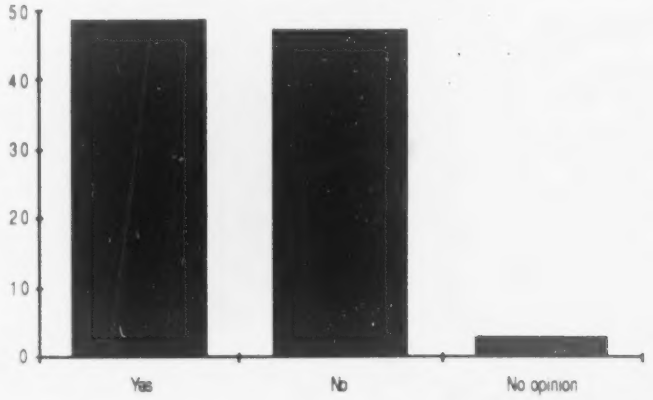


MONETARY POLICY

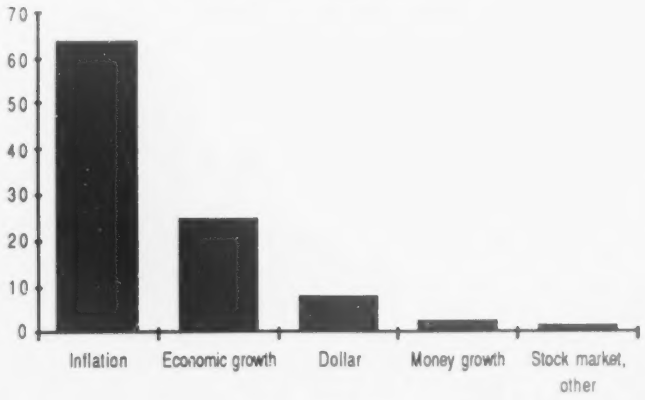
HOW WOULD YOU JUDGE RECENT MONETARY POLICY?
(Percent of economists responding)



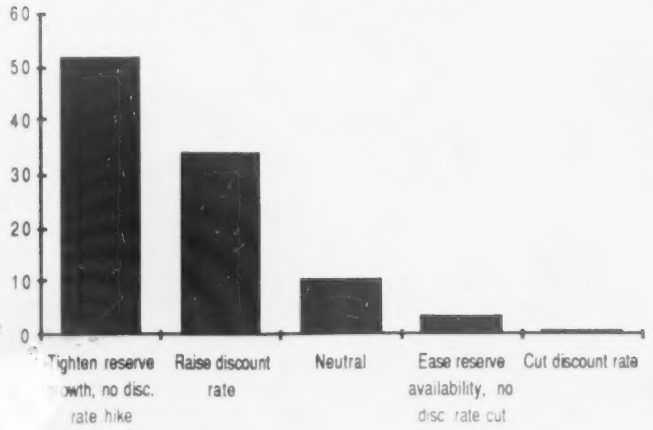
IS RECENT MONEY GROWTH A GOOD INDICATOR OF MONETARY POLICY
(Percent of economists responding)



KEY FACTOR AFFECTING FED POLICY IN NEXT 6 MONTHS
(Percent of economists expecting)



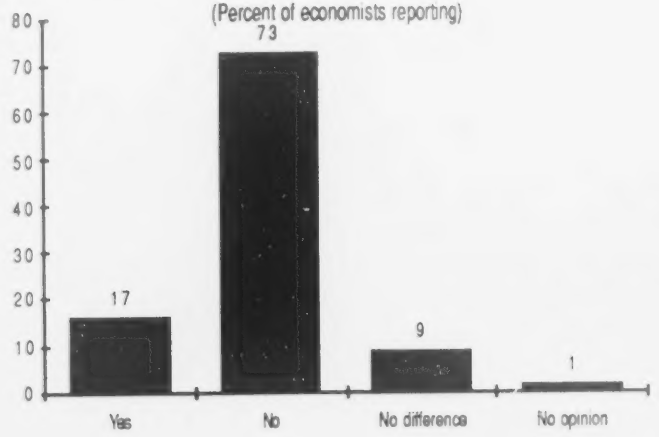
FED POLICY STEPS OVER NEXT 6 MONTHS
(Percent of economists expecting)



MINIMUM WAGE

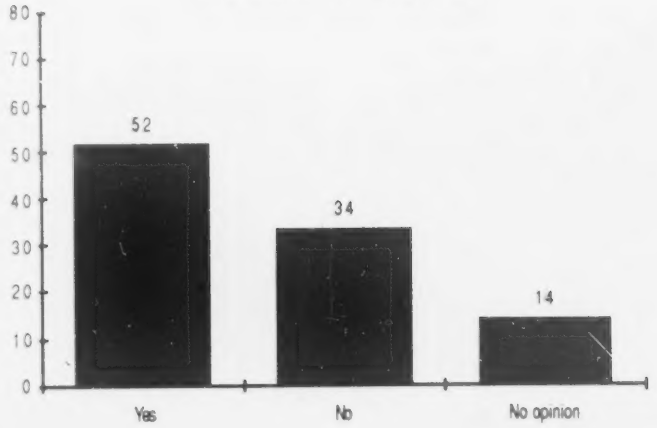
IS MINIMUM WAGE BILL SOUND ECONOMIC POLICY?

(Percent of economists reporting)



WILL A MINIMUM WAGE BILL PASS IN 1988?

(Percent of economists expecting)



IMPACT OF INCREASES IN MINIMUM WAGE

(Percent of economists reporting)